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February 10, 2004

Ms. Jean Gray
Assistant Regional Manager for Power Marketing
Western Area Power Administration
P.O. Box 6457
Phoenix, AZ 85005-7457

Re: Draft Amendment No. 1 (Rev 2, 1/16/2004) to Contract No. 87-BCA-10103 between Western and Salt River Project

Dear Jean:

Based on discussions at your January 16, 2004 customer meeting and subsequent discussions among the Parker-Davis Project customers SRP offers the following comments on the subject amendment.

From the discussions at your January 16 customer meeting, it appears the only unresolved issue related to Amendment No. 1 is the "Transfer of Interest in Contract" language. If such a provision is necessary in the amendment, SRP strongly urges Western to use the following language, which has been discussed among and is supported by virtually all of the Parker-Davis customers.

"In addition to the provisions of Section 37 of the General Power Contract Provisions and notwithstanding any other provision of the contract to the contrary, Western's Administrator reserves the right to reexamine and adjust Western's firm electric service obligations under this contract as the Administrator deems reasonably appropriate, if, where applicable, the Contractor's contractual obligation to supply electricity to a preference entity or preference entities after execution of this contract amendment is materially diminished as a result of a change in the Contractor's status by reason of: (1) the Contractor's merger with another organization, (2) its acquisition of or being acquired by another organization, (3) its creating a new organizational entity from an existing one, (4) joining or withdrawing from or contractually restructuring its membership in a membership-based power supply organization, or (5) if the Contractor is a membership-based power supply entity (such as a generation and transmission cooperative), terminating its contractual relationship with one or more members from its membership organization resulting in a significant reduction in remaining load measured against the criteria used by the Administrator in approving the Contractor's allocation."

If this language is not accepted by Western, then the only acceptable alternative to SRP is the Transfer of Interest in Contract provision that has been included in Amendment No. 5 to its

CRSP contracts. As discussed in our January 12 letter, the Transfer of Interest in Contract language proposed in Revision 1 of draft Amendment No. 1 is overly broad and introduces uncertainty in the contract that is unacceptable to SRP, and the language in Revision 2 and the alternatives discussed at your January 16 customer meeting do not provide adequate solutions to our concerns.

The proposed language above removes the open-endedness of the examples. Open-ended language in this provision results in what could be interpreted as a non-firm contract because it could appear the contract allocation could be revised at any time for virtually any reason by the Administrator. Any language that could convert this from a firm to a non-firm contract is unacceptable to SRP.

Your customers rely on the stability of their long-term federal power contracts and base important resource decisions on the certainty of those contracts. We believe the language proposed by Western in the latest draft introduces significant uncertainty and the discussion at the customer meeting was itself evidence of the lack of clarity of meaning and understanding of this draft language. We do not want uncertainty in why or how this provision will be implemented.

The discussion at your customer meeting seemed to be aimed at solving a specific problem that may exist between AEPCO and one of its members. If a problem, real or perceived, does exist between AEPCO and one of its members, we do not believe it is Western's role or responsibility to try to solve that problem with language that is inserted in contracts with all of your customers. Also, it is our understanding that the potential problem does not even arise during the term of Amendment No. 1.

Again, we emphasize that, if a Transfer of Interest in Contract provision is required in the amendment, the only new language that has been presented to date that is acceptable to SRP is the language included above. If that language is not accepted by Western, the only acceptable alternative to SRP is the Transfer of Interest in Contract language included in Amendment No. 5 to the CRSP contract. It would be obviously unfair for Western to present to its customers a contract for execution that includes language that we have not seen and on which we have not had an opportunity to comment or discuss, therefore we urge Western to adopt and include the proposed language in Amendment No. 1.

Sincerely,



Mark S. Mitchell
Manager, Power Marketing